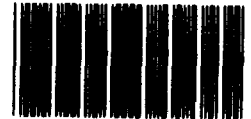


United States General Accounting Office  
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STATEMENT OF  
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BEFORE THE  
SUBCOMMITTEE ON GOVERNMENT INFORMATION AND  
INDIVIDUAL RIGHTS  
COMMITTEE ON GOVERNMENT OPERATIONS  
HOUSE OF REPRESENTATIVES  
ON  
THE POSTAL SERVICE'S METHOD FOR BILLING  
FEDERAL AGENCIES FOR PENALTY MAIL



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Mr. Chairman and Members of the Subcommittee:

I appreciate your invitation to present our views on the Postal Service's method for billing Federal agencies for penalty mail. During this period of fiscal belt-tightening it is important that the charges for penalty mail are reasonably accurate so that the Postal Service can be sure it is receiving revenues it is entitled to and so that agencies can be made more accountable for their mailing operations.

Penalty mail consists of all official Government mail of the United States (other than franked mail) which can be transmitted without prepayment of postage. Penalty mail bears the words "Official Business," and "Penalty for Private Use, \$300,"

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and includes the name of the agency. Although postage is not prepaid, this mail is not transmitted free. For the most part agencies are required to reimburse the Postal Service for penalty mail at the same rates as non-governmental organizations. Some 210 Federal agencies and commissions use penalty mail for which they paid \$682 million in 1980.

#### HOW THE PROGRAM WORKS

Before the beginning of each fiscal year, Federal agencies provide estimated mailing costs to the Service for the coming year. Generally these are based on past experience and anticipated use and consider such things as rate changes. The estimates are then used as the basis for periodic payments made by the agencies during the year. Adjustments in these payments may be made during the year to more accurately reflect mailing practices.

After the year is over final adjustments are made to the payments already made based on actual mail counts and/or sampling conducted by the agencies during the year. Until fiscal year 1981, actual mail counts were made by the agencies of such things as bulk, contracted, and metered mailings. Documents were maintained by the agencies showing the volume, weight and/or value of the mailing. The amount of actual counting that occurs differed from agency to agency ranging from very little at some agencies to all the outgoing mail at 14 others. According to a

Postal Service official, beginning in fiscal year 1981, the Service assumed the responsibility of capturing some of the data on the use of direct accountability items.

For that portion of the outgoing mail where actual counting does not occur, the agencies may perform samples following rules set by the Postal Service. Simply stated, during 2 weeks of the year (as randomly selected by the Service) agencies are to make a complete count of all outgoing mail at their Headquarters and all field locations. This count is then projected to the other weeks and is used as the basis for computing mailing costs. The Postal Service permits some agencies to modify this sampling plan on a case by case basis.

Some agencies choose not to perform their own sample. Presently 16 of the 210 agencies using penalty mail do not perform samples. These 16 agencies are made up of some of the largest Federal agencies, in terms of mail usage, such as the Air Force and the Department of Labor's Employment and Training Administration, as well as some small agencies such as the Department of Commerce's International Trade Administration.

Rather than rely on their own sampling, these 16 agencies rely on a Postal Service sampling system known as Revenue, Pieces and Weights (RPW) for determining mailing costs which are not otherwise accounted for. RPW is a subsystem of the Service's Revenue and Cost Analysis System which requires a continuous statistical sampling at selected post offices for identifying

revenues and costs associated with each class of mail and type of service.

Sampling is performed at the 119 largest post offices, as well as, several smaller post offices. Postal Service headquarters randomly selects which delivery units are to be sampled each day. All mail going through each selected unit is classified, counted, weighed and recorded by data collection technicians. The data is computerized and applicable rates are applied to arrive at the amounts owed by Federal agencies. Although only 16 agencies are billed based on this data, it is available for 92 of the 210 Federal agencies, and can be used for comparison against the agencies' sample results.

DIFFERENCES IN AGENCY SAMPLES  
AND THE RPW SAMPLE

Mr. Chairman, on August 4, 1981 you requested that we compare Federal agencies' sample amounts with the Service's RPW amounts for a 5 year period. Because of the recordkeeping system used by the Service, we had great difficulty in obtaining the requested data. Therefore, as agreed with your office, we limited our comparison effort to obtaining data on 14 agencies for fiscal year 1979 and on three agencies for 5 years. We also gathered RPW sample data on three additional agencies for 5 years to be sure that, in fact, RPW was the basis for that portion of the agencies' mailing costs that were not subject to direct accountability.

Before I give you the results, I must warn you that because of our limited scope, the results are not projectable to the

universe of 210 agencies that use penalty mail. I need to point out one other thing. Whichever sampling technique is used, one should expect it to produce a reasonably accurate figure for agencies' mailing costs. During our review we did not examine the sampling methodologies or the practices used by those persons taking the samples; therefore, we cannot attest to the accuracy of the results of either sample.

The bottom line to our comparison of sample results is that there is no agreement between the results of the agency sample and the RPW amounts. The question then becomes which is more reliable.

Of the 14 agencies reviewed for fiscal year 1979 and the 3 agencies we reviewed for the 5 year period (to the extent that comparisons could be made) the results of the samples differed in all cases. Sometimes the equivalent amount of postage based on the agency sample was larger than that based on RPW, and other times it was smaller. (The detailed comparisons are included as Attachment I and II to this testimony).

The largest dollar difference was in the data for the Veterans Administration for fiscal year 1980. The amount of postage based on the agency's sample was \$32.3 million and the amount based on RPW was \$25.5 million--a difference of \$6.8 million. Over a 4-year period the Veterans Administration paid about \$16 million more than the RPW sample showed it owed. In hindsight the Veterans Administration would have been better off had it used the RPW data.

The largest percentage difference (perhaps a better measure) was a 242 percent difference in the sample amounts for the National Technical Information Service in 1977. The agency's sample showed that about \$312,000 was due for postage while RPW showed that slightly more than \$1 million was due. In this instance, the Service rejected the agency's sample because of the manner in which it was performed, and billed the agency based on the RPW sample. Although final payment was not received by the Postal Service until 1981 the National Technical Information Service paid the amount calculated by the Postal Service.

During our audit effort, Service employees responsible for billing Federal agencies repeatedly told us that RPW sample data was not precise particularly for small agencies like the National Technical Information Service. As you can see in Attachment III, other small agencies like the International Trade Administration and the Fish and Wildlife Service were billed based on the RPW sample.

#### MAIL MANAGEMENT PROBLEMS

Although the scope of our work was limited basically to comparing agency and RPW sample data and looking at disputes over bills, we have some thoughts in the area of mail management that I feel should be mentioned. (Some of these thoughts echo those of Postal employees who are responsible for billing agencies for their mailing costs and you may want to explore them further with the Service.)

It seems that in this time of budget belt-tightening, some agencies will have to put extra notches in the mail belt. A Postal official told us he suspects that agencies may understate their mail costs for budgetary reasons. Upon receiving their bills, some agencies respond that they simply do not have the funds to pay the requested amount.

Some agencies also do not submit the required documentation of their samples to the Postal Service on a timely basis. We have been told that this is the result of problems the agencies have in assembling and recording the data. Sometimes, agencies simply do not do their sampling.

Many times documentation that is submitted by the agencies contains errors in computation and rate application. Sometimes the agencies fill in all the blanks, but a look behind the figures indicates the sampling was done incorrectly.

Despite repeated attempts by the Postal Service to promote better mail management, some agencies still come up short in meeting the Service's requirements. The National Archives and Records Service, which is part of the General Services Administration, has also emphasized better mail management and has claimed \$26 million savings for their efforts, but fiscal year 1983 budget-cuts will substantially reduce the Records Service's efforts.

#### ACCOUNTING AND RECORDKEEPING

In addition to problems in mail management by Federal agencies, we noted some problems in the Postal Service's record-

keeping system. We listed some of these problems in a letter to the Subcommittee Chairman dated August 28, 1981. I would like to elaborate on that letter.

When we were doing our audit in August, September and October of 1981 some of the fiscal year 1980 data (which ended in September 1980) had not yet been finalized. There were still a few agencies arguing with the Postal Service over 1979 bills and even as far back as 1976. The further back you go with examining the supporting documentation for postage bills the more sketchy things become.

Information on the status of accounts and documentation of transactions for fiscal year 1980 and the four previous fiscal years could best be described as scattered and uncoordinated. We had a difficult time determining when and if bills were issued or paid. Bills for express mail service, a direct accountability item, were scattered between two filing systems and for missing bills, it was sometimes unclear whether a bill was sent. Also, documentation supporting some agency samples was missing from the files and for some documentation that was in the files, dates submitted and received were not recorded, so we could not determine when it was submitted or how long it took the Service to act on it.

Data on RPW results for fiscal years 1976 and 1977 was not available in a format that could be used for a quick comparison with agency documentation. This necessitated detailed calculations on a case by case basis to make the comparisons you asked us to make.



Speaking of calculations, although we did not check the mathematical accuracy for all the Service's bills, we did note some errors. The most glaring error was an overcharge to the Department of Labor's Employment and Training Administration of \$600,000 for its 1980 mailings. The Administration paid \$7.6 million rather than the \$7 million it owed. The error was a simple subtraction error that both agencies should have caught. When we discussed this with Service officials, they told us that a check would be sent to the Employment and Training Administration. They also told us that they are considering the installation of a computer system that should help with the accounting and record-keeping problem they have.

Some of the deficiencies we found have also been reported by the Postal Inspection Service in its reports on the penalty mail program in 1976 and 1980. Postal Service officials told us that, in addition to the computer system I just mentioned, they were making changes in the administration of the penalty mail program to correct problems identified by the Inspection Service.

#### DISPUTES OVER POSTAGE BILLS

Your August 1981 letter asked us to identify disputes between the Postal Service and Federal agencies over bills for penalty mail. We observed that disagreements over certain items on bills routinely occur and are ironed out through give and take between Postal Service and agency personnel. We excluded these situations from consideration and examined only those instances involving

a significant amount of funds in which an agency refused to pay its bill because of the dispute. The Postal Service told us that there were only two instances that met this criterion.

The first dispute was with the Department of Health, Education, and Welfare's Office of the Secretary over its 1976 bill. When the agency did not submit documentation of its sampling, the Postal Service billed it \$3.7 million less about \$815,000 it had already paid. The Service based the bill on RPW plus direct accountability amounts. HEW refused to pay the bill and disputed the validity of the RPW data. According to Service employees, as the Service and the Office of the Secretary worked to resolve the problem, two factors became evident--the Office of the Secretary had not performed the required sample, and other HEW components used the Office of the Secretary's penalty mail envelopes which probably inflated the RPW data. The Postal Service helped the Office of the Secretary refine available agency sample data and perform additional sampling. The result was a postage bill of about \$1.5 million, an amount higher than the agency's original estimate, but lower than the RPW figure. Since the Office of the Secretary had already paid about \$815,000, it paid the Service an additional \$644,000 which settled the dispute.

The second dispute is continuing with the Air Force over its bills for several classes of mail over a period of 6 years. The Air Force is billed based on RPW. It withheld payments for the fourth quarter of fiscal year 1976 totaling \$1.4 million saying

the RPW amount billed them was too high and that they had performed some of their own sampling which produced a smaller amount. The Postal Service considered the methodology used in the Air Force sample unsound and has continued to ask for payment based on RPW.

The Air Force also disputed its bill for the 1976 transition quarter, refusing to pay RPW amounts in five categories totaling \$1.2 million. RPW amounts have also been disputed for bills covering fiscal years 1977, and 1979. In addition to the validity of RPW data, much of the dispute has been based on a disagreement about whether certain contractor mailings are to be charged at the third class bulk, or the third class single piece rate. Although the Service says it is considering some changes in reporting requirements that could lessen the problem with third class mail, the two agencies do not seem to be near a solution to the dispute over the reliability of RPW data. Since 1976, the Air Force has disputed amounts totaling \$8.1 million.

#### CONCLUSION

In conclusion, we feel that Federal agencies (just like non-governmental organizations) should be paying the Postal Service the correct amount for services received. We know that the two sampling techniques produce different amounts but we do not know if Federal agencies (particularly those using RPW) are paying too little or too much for postal services.

There appears to be no quick fix for the problem. Requiring the widespread use of meters would certainly result in more direct accountability but the cost effectiveness must be considered. Requiring the prepayment of postage by Federal agencies would better protect postal revenues, but may place undue accountability problems on agencies and also would require legislative changes. Redesigning the present sampling system to add more reliability may be another solution; but again the cost effectiveness must be considered.

We were not asked for nor do we have a solution. Hopefully the agencies you have asked to testify at this hearing can shed some light on the best course of action to take.

I thank the Subcommittee for the opportunity to share our knowledge of this complex matter. My associates and I will be happy to answer any questions you may have.

**DIFFERENCES IN AGENCY AND USPS DATA**  
 (Agencies Billed Based On Their Own Samples)  
 (Fiscal Year 1979)

<u>AGENCY</u>	<u>POSTAGE BASED ON AGENCY SAMPLE d/</u>	<u>POSTAGE BASED ON RPW</u>	<u>DIFFERENCE e/</u>	<u>PERCENTAGE DIFFERENCE</u>
<b>Commerce:</b>				
National Technical Information Service	\$ 1,624,392	781,259	-843,133	51.9 %
Bureau of Economic Analysis	87,226	62,358	- 24,868	28.5 %
Bureau of the Census	5,039,166	4,736,746	-302,420	6.0 %
Economic Development Administration	70,119	188,280	+118,161	168.5 %
Maritime Administration	93,952	110,790	+ 16,838	17.9 %
Minority Business Development Agency	31,399 a/	86,405	+ 55,006	175.2 %
National Bureau of Standards	449,902	304,463	-145,439	32.3 %
National Oceanic and Atmospheric Administration	3,392,768	4,341,303	+948,535	28.0 %
National Telecommunications and Information Administration	35,131	39,983	+ 4,852	13.8 %
Office of the Secretary g/	307,689	509,163	+201,474	65.5 %
U.S. Travel Service	44,062	19,293	- 24,769	56.2 %
Office of Regional Development	7,011	b/	--	--
Patent Office	720,034	697,225	- 22,809	3.2 %
Veterans Administration	31,604,281	25,666,990	-5,937,291	18.8 %

a/Agency documentation done improperly. Figure calculated by USPS using agency sample results.

b/Not assigned an RPW number.

c/Billed as two accounts, but RPW data collected for the combined office only.

d/Basic errors by agency (e.g. mathematical errors and incorrect categorization of data) corrected.

e/Agency sample amount is the base.

ATTACHMENT II

**DIFFERENCES IN AGENCY AND USPS DATA**  
(Fiscal Years 1976 - 1980)

<u>AGENCY</u>	<u>SAMPLE</u>	<u>RPW</u>	<u>DIFFERENCE d/</u>	<u>PERCENTAGE DIFFERENCE</u>
<b>BUREAU OF THE CENSUS</b>				
FY 76c/	2,277,827	a/	---	---
FY 77	1,764,637	a/	---	---
FY 78	4,250,106	4,882,877	+632,771	14.9%
FY 79	5,039,166	4,736,746	-302,420	6.0%
FY 80	b/	8,256,136	---	---
<b>NATIONAL TECHNICAL INFORMATION SERVICE</b>				
FY 76c/	328,579	a/	---	---
FY 77	311,752	1,067,521	+755,769	242.4%
FY 78	820,330	962,519	+142,189	17.3%
FY 79	1,624,392	781,259	-843,133	51.9%
FY 80	967,261	742,431	-224,830	23.2%
<b>VETERANS ADMINISTRATION</b>				
FY 76c/	20,579,035	a/	---	---
FY 77	24,594,367	25,383,556	+789,189	3.2%
FY 78	29,846,800	25,665,602	-4,181,198	14.0%
FY 79	31,604,281	25,666,990	-5,937,291	18.8%
FY 80	32,323,485	25,512,533	-6,810,952	21.1%

a/Not calculated by USPS.

b/Documentation not submitted by agency because of pending ruling.

Rise in RPW partially due to 1980 decennial census.

c/15 months. Includes transition.

d/Agency sample amount is the base.

ATTACHMENT III

RPW AMOUNTS FOR AGENCIES  
BILLED BASED ON RPW  
 (Fiscal Years 1976-1980)

<u>FISCAL</u> <u>YEAR</u>	<u>INTERNATIONAL</u> <u>TRADE</u> <u>ADMINISTRATION</u>	<u>EMPLOYMENT AND</u> <u>TRAINING</u> <u>ADMINISTRATION</u>	<u>FISH AND</u> <u>WILDLIFE</u> <u>SERVICE</u>
FY 76	816,845	59,417,658	a/
FY 77	860,199	51,284,273	780,246
FY 78	747,211	45,501,624	555,182
FY 79	820,992	48,029,969	1,077,322
FY 80	1,104,775	58,101,864	1,412,547

a/RPW data not calculated by USPS.